

EXECUTIVE SUMMARY

A TEACHABLE MOMENT

*Understanding the Complexities of
Charter School Financing in Milwaukee*



EXECUTIVE SUMMARY

In recent years, competition for K-12 enrollment in Wisconsin among traditional public schools, charter schools, and private schools using the state's voucher programs has intensified. Because elementary and secondary education finance in the state primarily is driven by enrollment, this has presented increasingly difficult fiscal conditions for school districts. In no district is that more the case than in state's largest district, the Milwaukee Public Schools (MPS).

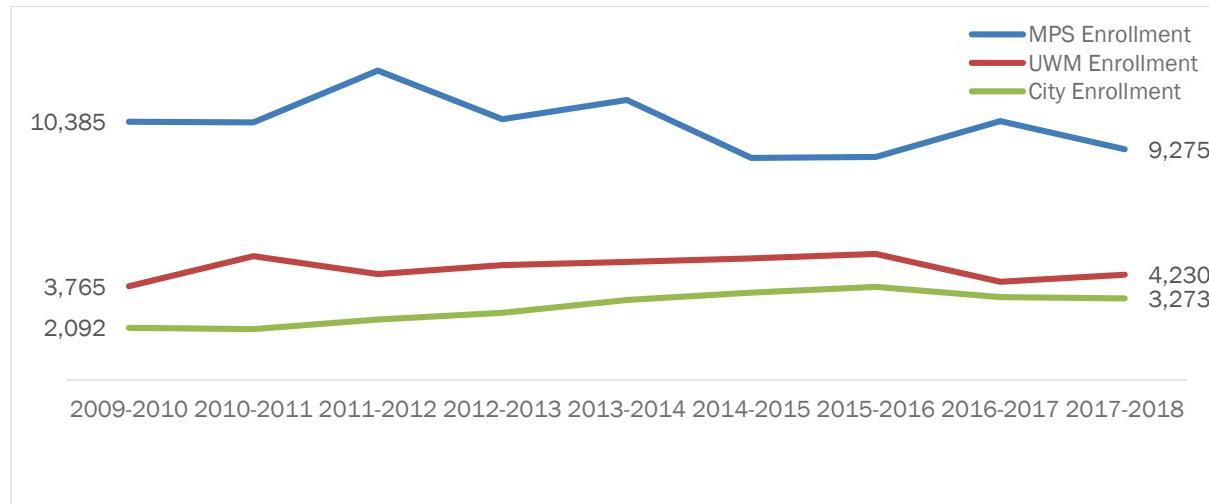
In recent years, one of the strategies considered by MPS to help stabilize enrollment – and the revenue streams attached to it – has been to expand its portfolio of non-instrumentality charter (NIC) schools. These are considered district schools, but they operate independently and do not employ MPS staff. The district's efforts to expand its charter school footprint have been controversial, and confusion continues to persist regarding the manner in which MPS funds its charter schools.

This report seeks to clarify the financial relationship between Milwaukee's charter schools and their authorizers. Specifically, it explains the charter school funding process used by Milwaukee's three charter authorizers – MPS, the University of Wisconsin–Milwaukee (UWM), and the City of Milwaukee; and it analyzes financial impacts for both MPS and its NIC schools when they elect to contract with one another.

Charter school trends in Milwaukee

While MPS leaders debate the virtues of adding more charter schools, trends reveal that its roster of charter schools has diminished in recent years. Between the 2009-10 and 2017-18 school years, MPS' portfolio of charter schools dropped from 35 to 21, while its charter school enrollment declined by 11% (as shown in the chart below). Underlying this trend is a drop of 21 instrumentality charter schools (which employ MPS teachers and staff) but an increase of seven NIC schools. In contrast, the number of schools under UWM and the City of Milwaukee grew by a combined total of five, while enrollment increased by 12% and 56%, respectively.

Charter school enrollment in Milwaukee by authorizer (2009-10 to 2017-18)



Source: Wisconsin Department of Public Instruction



Meanwhile, enrollment of Milwaukee students in private schools using taxpayer-funded vouchers during a similar timeframe grew by about 42%. Against this backdrop, enrollment in traditional MPS schools has been falling steadily and is down almost 15% since 2008-09 (from about 80,000 students to 67,000). These trends illustrate the growing range of educational options available to families in Milwaukee and the competitive pressures under which MPS operates.

Distinctions between Milwaukee charter operators

Because entities seeking to operate charter schools in Milwaukee can choose among three active charter authorizers, it is important for them (and state and local policymakers) to understand how each authorizer structures the financial relationship with its operators. The components of that relationship include not only seemingly straightforward matters like administrative fees and state per-pupil allocations, but also the distribution of various categorical aids provided by the state and federal government for special purposes and student populations (e.g., special education for students with disabilities).

Key distinctions among the three Milwaukee charter school authorizers are summarized in the table on the following page. Of particular importance is the fact that entities chartering schools under UWM and the City of Milwaukee operate as their own Local Education Agency (LEA), which means they receive their state and federal funding directly from those governments. In contrast, MPS is the LEA for its charter schools, which means that state and federal funds flow to MPS first and then are allocated to the charter schools per relevant legal and contractual provisions.

There are advantages to this relationship for MPS NIC schools in that certain compliance activities associated with state and federal funding streams are handled by the district. However, because MPS has discretion over the methodology used to determine the portion of each state and federal funding source that will be allocated centrally versus distributed to individual schools (both traditional and charter), this distinction also has created some tension between MPS and NIC school operators.



| Key distinctions between Milwaukee's charter school authorizers (as of 2017-18) | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Milwaukee Public Schools Non-instrumentality charter (NIC) schools | University of Wisconsin - Milwaukee (UWM) Independent charter schools | City of Milwaukee Independent charter schools |
| Standard per-pupil payment for general operations | \$8,395 Amount determined by MPS. Authorizer (MPS) receives state and local aids to which it is entitled and pays NIC schools out of those monies. | \$8,395 Amount determined by state. The state pays schools directly. Per-pupil monies do not pass through authorizer. | \$8,395 Amount determined by state. The state pays schools directly. Per-pupil monies do not pass through authorizer. |
| Negotiated arrangements for supplemental payments | Three schools have negotiated supplemental payments from MPS. Two are based on performance incentives and one is based on types of students served. | Not applicable | Not applicable |
| Administrative fees as a % of per-pupil payments | 3% is standard. Some schools have negotiated 1% or 2% rates. MPS deducts administrative fee before paying NIC schools. | 1.7%. Actual expenses are itemized, and unused funds are returned to schools. Schools pay authorizer directly. | 2% or 2.5% Schools pay authorizer directly. |
| School acts as Local Education Agency (LEA) for purposes of legal compliance and access to state and federal categorical aids and funding sources. | NO District acts as LEA on behalf of all district schools, including charter schools. District receives state/federal categorical funding and decides how to allocate it to schools (subject to legal rules). | YES Independent charter schools are responsible for all LEA compliance; have direct access/control over spending state/federal funding sources. | YES Independent charter schools are responsible for all LEA compliance; have direct access/control over spending state/federal funding sources. |
| Access to facilities | MPS offers access to district-owned facilities to charter schools. Charter schools pay for such access through lease or purchase agreements with MPS. | Not applicable Charter schools procure facilities on their own. | Not applicable Charter schools procure facilities on their own. |

Financial relationship between MPS and its NIC schools

Contentiousness between MPS and its NIC schools particularly has surfaced with regard to MPS' payments to those schools, and whether they appropriately reflect the potential benefits that each side brings to the relationship. Those payments include a per-pupil allocation, which MPS has elected to set at the same level as the state's per-pupil allocation to independent charter schools; an administrative fee that is intended to reimburse MPS for the administrative duties it performs as a charter school authorizer; and a share of certain state and federal categorical aids. In addition, three of the 11 NIC school operators have negotiated supplemental payments, which in some cases are tied to performance.

We make a series of observations about this funding relationship, including the following:



- When viewed strictly in terms of per-pupil operating funds, MPS' charter school payment policy puts its charter schools on a level playing field with independent charter schools (i.e. both types of schools received \$8,395 per pupil as a base payment in 2017-18).
- However, it is the manner in which MPS distributes categorical aids that creates differences. MPS' stated policy is to distribute such aids to NIC schools in the same manner as they are distributed to traditional schools. As such, MPS withholds a portion of those funds for both administrative costs and centralized district-wide programming, subject to legal compliance rules and the district's discretion. This is distinct from the case for independent charter schools, which also are subject to legal compliance rules but otherwise have direct access to and control over spending of all state and federal aids for which they, as LEAs, are eligible.
- The administrative fee MPS charges to NIC schools ranges from between 1% and 3% of the gross payments they receive, with the percentage dictated through contract negotiations. Most schools pay 3%, two schools pay 1%, and one school pays 2%. On average, NIC schools pay MPS approximately \$169 per pupil in administrative fees. These administrative fee rates do not differ meaningfully from those charged by UWM or the City of Milwaukee.
- The differences in administrative fees rates among NIC schools – and the practice of providing supplemental payments for some schools – raises equity concerns and likely fuels some of the discord surrounding MPS chartering decisions.

Overall, net of administrative fees, MPS' budgeted general operating payments to NIC schools in 2017-18 totaled \$61.3 million (this does not include special purpose state and federal categorical aids). This constituted an average of \$8,228 per NIC school student. The table below shows the breakdown by NIC school.

Budgeted payments from MPS to NIC schools, 2017-18

| MPS non-instrumentality charter school | Standard gross payment to NIC school | Special negotiated arrangement | Adjusted gross payment | Admin. fee (percent) | Admin. fee (amount) | Net payment to NIC school | Net payment per pupil |
|----------------------------------------|--------------------------------------|--------------------------------|------------------------|----------------------|----------------------|---------------------------|-----------------------|
| Carmen | \$11,480,163 | | \$11,480,163 | 1% | (\$114,802) | \$11,365,361 | \$8,311 |
| Highland | \$3,064,175 | \$356,788 | \$3,420,963 | 3% | (\$102,629) | \$3,318,334 | \$8,143 |
| HAPA | \$12,910,671 | | \$12,910,671 | 3% | (\$387,320) | \$12,523,350 | \$8,143 |
| Kathryn T Daniels | \$1,745,321 | | \$1,745,321 | 3% | (\$52,360) | \$1,692,961 | \$8,143 |
| La Causa | \$6,420,496 | | \$6,420,496 | 2% | (\$128,410) | \$6,292,086 | \$8,227 |
| MCP | \$16,154,499 | \$769,720 | \$16,924,219 | 1% | (\$169,242) | \$16,754,976 | \$8,707 |
| MCC | \$1,574,063 | | \$1,574,063 | 3% | (\$47,222) | \$1,526,841 | \$8,143 |
| MES | \$3,364,716 | | \$3,364,716 | 3% | (\$100,941) | \$3,263,775 | \$8,143 |
| Milwaukee Ex. | \$1,947,640 | | \$1,947,640 | 3% | (\$58,429) | \$1,889,211 | \$8,143 |
| Next Door | \$1,909,863 | \$28,400 | \$1,938,263 | 3% | (\$58,148) | \$1,880,115 | \$8,264 |
| NOVA Tech | \$839,500 | | \$839,500 | 3% | (\$25,185) | \$814,315 | \$8,143 |
| Total | \$61,411,104 | \$1,154,908 | \$62,566,012 | | (\$1,244,688) | \$61,321,324 | |
| Average | | | | | | | \$8,228 |

Source: Milwaukee Public Schools



Budgetary impacts of NIC schools on MPS

While the discussion above highlights the process that determines the contract-driven funding NIC schools receive from MPS, it also is important to understand the manner in which MPS itself receives funding as a result of NIC enrollment. Similar to the previous table on NIC school funding levels, the table below tracks the flow of the main categories of general operating monies from the state to MPS as a result of NIC school enrollment.

We see that for each enrolled MPS student (including NIC school students) in 2017-18, MPS received \$10,122 through a combination of state aid and property tax known as the revenue limit per pupil. MPS also received \$450 per pupil through the state's per-pupil categorical aid program, for a total of \$10,572 per pupil in base operating funds.¹ Because this amount is higher than the per-pupil base payment it made to its charter schools (\$8,395 in 2017-18), the district realizes a positive balance for each NIC school student. The average per-pupil balance (net of administrative fees and negotiated supplemental payments) realized by MPS was \$2,243 in 2017-18.

Budgetary impact of NIC schools on MPS, 2017-18

| MPS non-instrumentality charter school | MPS base operating revenue (per K4-12 pupil)* | MPS base operating revenue (Total) | Net amount MPS realizes BEFORE admin. fees/negotiated payments | Net amount MPS realizes BEFORE admin. fees/negotiated payments (per K4-12 pupil) | Net payment to NIC school | Net amount MPS realizes AFTER admin. fees/negotiated payments | Net amount MPS realizes AFTER admin. fees/negotiated payments (per pupil) |
|----------------------------------------|-----------------------------------------------|------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------------------------|---------------------------|---------------------------------------------------------------|---------------------------------------------------------------------------|
| Carmen | \$10,572 | \$14,456,841 | \$2,976,678 | \$2,177 | \$11,365,361 | \$3,091,480 | \$2,261 |
| Highland | \$10,572 | \$3,858,681 | \$794,506 | \$2,177 | \$3,318,334 | \$540,348 | \$1,326 |
| HAPA | \$10,572 | \$16,258,264 | \$3,347,593 | \$2,177 | \$12,523,350 | \$3,734,913 | \$2,429 |
| Kathryn T Daniels | \$10,572 | \$2,197,863 | \$452,542 | \$2,177 | \$1,692,961 | \$504,902 | \$2,429 |
| La Causa | \$10,572 | \$8,085,259 | \$1,664,763 | \$2,177 | \$6,292,086 | \$1,793,173 | \$2,345 |
| MCP | \$10,572 | \$20,343,180 | \$4,188,682 | \$2,177 | \$16,754,976 | \$3,588,204 | \$1,865 |
| MCC | \$10,572 | \$1,982,199 | \$408,137 | \$2,177 | \$1,526,841 | \$455,359 | \$2,429 |
| MES | \$10,572 | \$4,237,149 | \$872,433 | \$2,177 | \$3,263,775 | \$973,375 | \$2,429 |
| Milwaukee Ex. | \$10,572 | \$2,452,641 | \$505,001 | \$2,177 | \$1,889,211 | \$563,431 | \$2,429 |
| Next Door | \$10,572 | \$2,405,069 | \$495,206 | \$2,177 | \$1,880,115 | \$524,954 | \$2,307 |
| NOVA Tech | \$10,572 | \$1,057,173 | \$217,673 | \$2,177 | \$814,315 | \$242,858 | \$2,429 |
| Total | | \$77,334,319 | \$15,923,215 | | \$61,321,324 | \$16,012,996 | |
| Average | | | | | | | \$2,243 |

Source: Milwaukee Public Schools

* Our base operating revenue amount is the sum of 1) MPS' \$10,122 per-pupil revenue limit in 2017-18; plus 2) \$450 in per-pupil categorical aid that MPS received in 2017-18, both of which were established in the 2017-19 state budget.

¹ MPS finances district operations using variety of other revenue streams outside of these two per-pupil general operating funding sources. This report focuses on revenue limit per pupil and per pupil categorical aid because these two funding sources, combined, represent the majority of general operating funds for the district and the principal funding sources that are directly tied to student enrollment, including in NIC schools.



MPS uses this positive balance for district-wide costs. This is essentially the same practice it uses for its traditional schools, which receive a base per-pupil amount during the budget process that is less than the per-pupil allocations allowed by the state, with the balance used for centralized programming and services; fixed administrative and legacy costs; and other district-wide costs. According to MPS' 2017-18 budget, the average per-pupil amount allocated to traditional district schools was approximately \$7,570, or about \$650 less than the average funding MPS provided to NIC schools.

MPS' decision to retain a "positive balance" from its NIC students could be justified by the argument that NIC schools – like all MPS schools – should contribute to the district's general overhead and administrative costs. The NIC schools, on the other hand, could argue that given their semi-independent status, and the costs they help the district avoid (e.g. those associated with staffing and retirement benefits), they should not be compelled to shoulder costs that, in some cases (like legacy costs), have little to do with them. Moreover, NIC schools, arguably, do not meaningfully benefit from MPS centralized services designed for traditional district schools with unionized workforces.

Further, NIC schools might argue that the positive balance is only generated in the first place by their existence, though it is impossible to determine whether students enrolled at NIC schools would revert back to traditional MPS schools or other types of schools if the NIC schools did not exist.

Is it appropriate for MPS to retain the full balance between its per-pupil allocation from state and local sources and the amount allocated to NIC schools? Should it, instead, be sharing a larger portion or even all of this balance with the schools it is chartering? The answers to those questions are in the eye of the beholder.

Charter schools in other states

To put the Wisconsin charter school landscape in context, we conducted a national scan to identify charter school policies and funding frameworks in other states that offer relevant lessons for Wisconsin and Milwaukee. Based on this scan, we selected four states – Colorado, Indiana, Illinois, and Minnesota – to serve as comparison case studies. We found that while the policy environment governing charter schools in Wisconsin and Milwaukee is similar in many ways to other states, there are important differences in three key areas: equitable access to operating funds; equitable access to facilities and/or funding for facilities; and accountability and transparency.

This analysis does not referee disputes between MPS and charter schools or weigh in on the value of charter schools. Our aim is to lay out verifiable facts. However, our findings also raise important policy questions for both state and local policymakers.

Considerations for Policymakers

Our analysis is intended to clarify a complex but critical component of Milwaukee's K-12 education landscape. It does not referee disputes between MPS and charter schools or weigh in on the value of charter schools. However, our findings raise some important policy questions that could be addressed at both the state and local level.



Specifically, *state policymakers* could consider the following actions:

- Guarantee a uniform basic minimum amount of operating funding to all school types, as some other states have done. Adopting such a policy in Wisconsin might help abate disagreements over how much MPS should be paying its charter schools
- Provide state assistance to ensure existing charter schools statewide operate in safe and functional school facilities. Other states have adopted provisions allowing charter schools to use state facilities or to access grants or capital financing for repairs, renovations, or purchase of school buildings.
- Increase uniformity and transparency in financial reporting. The state already requires charter school authorizers to submit audited financial statements to the state itemizing operating costs and services provided. However, the state could require that administrative fees be determined based on actual documented authorizer oversight costs, applied uniformly across all of the schools in an authorizer's portfolio, and made easily accessible to the public.
- Protect school districts from the fiscal impacts of large enrollment drops toward charter schools. This could reduce some of the financial risk to districts that may discourage them from considering expanding charter schools and allow them to determine whether to do so from a programmatic standpoint.

Although charter school policy largely rests with state policymakers, *local policymakers*, particularly at MPS, also have influence over several policy levers. They might consider the following:

- Make access to operating funds more equitable among NIC schools. The different per-pupil payments negotiated among NIC operators undermines a sense of fairness in the way the district treats them. The district could phase out special payment and fee arrangements or apply conditional payment arrangements uniformly across all schools. The district also could consider adjusting the per-pupil operating payment to NIC schools based on their status as independent schools that do not use as many resources for centralized program or administration as traditional schools.
- Provide more transparency by laying out per-pupil costs MPS realizes in serving all schools, including NIC schools, and posting the information online. The district could then align administrative fees to those costs. MPS could follow a similar process for facilities agreements with charter schools. Collectively, these steps could help MPS avert the perception that it is profiting at the expense of charter schools or showing favoritism toward specific operators.



Finally, this analysis uncovered a number of related questions that stem from financial distinctions by school type. Among such questions, the following merit particular attention and call for further research:

- How do all public education dollars (local, state, and federal) filter down to each of the different school types, including traditional district schools, district charter schools, independent charter schools, and private schools accepting parental choice vouchers?
- What is the actual amount of public money spent per pupil in each school setting?
- To what extent do per-pupil spending levels vary by school setting for key educational costs such as teacher compensation, support for students with disabilities, and facilities?
- What is the relationship between the amount of public expenditures in a given school setting and student outcomes in that setting?
- What accounts for any differences found on any of these questions?

We hope this analysis helps policymakers – as well as the broad base of K-12 education stakeholders – better understand the financial landscape related to charter schools in Milwaukee. Moreover, we hope that by shedding light on issues surrounding debates over financial aspects of chartering schools, our analysis will help ensure that policy discussions also focus on how and whether such schools produce outcomes that best serve Milwaukee's children.

